

Docket:	:	<u>A.12-12-024</u>
Exhibit Number	:	<u>DRA-02</u>
Commissioner	:	<u>Sandoval</u>
ALJ	:	<u>Kim</u>
Witness	:	<u>Loy</u>



**DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Report on the Results of Operations
for
Southwest Gas Corporation
General Rate Case
Test Year 2014**

**Summary of Earnings and
Allocation Factors for System Allocable Costs**

San Francisco, California
June 3, 2013

TABLE OF CONTENTS

CHAPTER 1.....	1-1
SOUTHERN CALIFORNIA DIVISION	1-1
I. INTRODUCTION	1-1
II. SUMMARY OF RECOMMENDATIONS	1-1
III. DISCUSSION / ANALYSIS	1-2
CHAPTER 2.....	2-1
NORTHERN CALIFORNIA DIVISION	2-1
I. INTRODUCTION	2-1
II. SUMMARY OF RECOMMENDATIONS	2-1
IV. DISCUSSION / ANALYSIS	2-2
CHAPTER 3.....	3-1
SOUTH LAKE TAHOE DISTRICT	3-1
I. INTRODUCTION	3-1
II. SUMMARY OF RECOMMENDATIONS	3-1
V. DISCUSSION / ANALYSIS	3-2
CHAPTER 4.....	4-5
ALLOCATION FACTORS FOR SYSTEM ALLOCABLE COSTS.....	4-5
I. INTRODUCTION	4-5
II. SUMMARY OF RECOMMENDATIONS	4-5
III. DISCUSSION / ANALYSIS	4-5
VI. QUALIFICATIONS OF WITNESS.....	4-6

1 **CHAPTER 1**
2 **SOUTHERN CALIFORNIA DIVISION**
3 **SUMMARY OF EARNINGS**

4 **I. INTRODUCTION**

5 This chapter presents the Division of Ratepayer Advocates' (DRA) Summary
6 of Earnings at present and proposed rates for Southwest Gas Corporation's (SWG)
7 Southern California Division for Test Year (TY) 2014. Revenue requirements are
8 calculated by a computer model designed for SWG and is referred to as "the Results
9 of Operations" (RO) model. A separate RO model is prepared for each of SWG's
10 service territories, or Divisions, in the jurisdiction of California because each Division
11 is subject to different, sometimes unique, tariff schedules. Data inputs prepared by
12 DRA's assigned witnesses are entered into the spreadsheets comprising its RO
13 model to produce annual revenue requirements. These inputs and the resulting
14 proposed revenue requirement at the Operating Margin are then used to derive
15 DRA's rate design. For the purposes of this chapter and to inform decision makers,
16 these results, the Summary of Earnings, are compared with those from SWG's RO
17 model.

18 The comparison between DRA's and SWG's Summary of Earnings at Present
19 Rate Revenues is shown on Table 2-A. The comparison for DRA's and SWG's
20 Summary of Earnings at Proposed Revenues is shown on Table 2-B.

21 **II. SUMMARY OF RECOMMENDATIONS**

22 The following bullets summarize DRA's key adjustments to SWG's showing
23 for the Southern California Division in TY 2014:

- 24 • DRA recommends that the Commission adopt DRA's projections for cost
25 of capital, expenses, and rate base as shown in Tables 2-A and 2-B,
26 because they constitute the foundation for DRA's recommended Test Year
27 2014 revenue requirement.

- DRA recommends the Commission adopt its net-to-gross multiplier of 1.71289 for the Southern California Division rather than SWG's proposal of 1.71516.

III. DISCUSSION / ANALYSIS

The differences between DRA and SWG reflected in the accompanying Summary of Earnings tables are addressed in detail in the appropriate DRA exhibits. For example, the difference in the net-to-gross multiplier factor between DRA and SWG is reflected as part of the dollar and percentage differences in the row for Customer Accounts at both present and proposed rate revenues. This is attributable to two things. They are: 1) the opposing methodologies developed by DRA versus SWG for deriving the Uncollectible Expenses component of the net-to-gross factor and 2) to the dollar differences in total revenues to which the respective factor is applied. This difference, in particular aspect 1), is explained in detail in Exhibit DRA-4.

Table 2-A					
PRESENT RATE REVENUES					
SOUTHERN CALIFORNIA					
FOR TEST YEAR 2014					
Line		DRA	SWG	SWG Exceeds DRA	
No.	Description	Recommendation	Application	Dollars	Percentage
		(a)	(b)	(c)	(d)
				(b)-(a)	[(b)-(a)]/(a)
1	Operating Revenue	\$ 102,408,473	\$ 102,408,473	\$ 0	0.00%
2	Gas Cost	40,511,505	40,511,505	0	0.00%
3	Operating Margin	\$ 61,896,968	\$ 61,896,968	0	0.00%
	<u>Operating Expenses</u>				
4	Other Gas Supply	\$ 165,677	\$ 165,677	\$ 0	0.00%
5	Distribution	13,218,369	13,928,381	710,012	5.37%
6	Customer Accounts	4,763,091	4,844,489	81,399	1.71%
7	Customer Service & Information	177,528	177,528	0	0.00%
	Administrative and General				
9	Southern California Division	1,709,436	1,758,796	49,360	2.89%
10	System Allocable	9,014,421	9,014,421	0	0.00%
	Depreciation and Amortization				
11	Southern California Division	10,922,922	11,353,233	430,311	3.94%
12	System Allocable	1,284,573	1,284,573	0	0.00%
13	Regulatory Amortization	79,019	79,019	0	0.00%
14	Property and Payroll Taxes	3,102,497	3,185,068	82,570	2.66%
	Escalation				
15	Labor	819,738	833,270	13,532	1.65%
16	Labor Loading	472,587	522,509	49,922	10.56%
17	Materials and Expenses	590,941	620,867	29,926	5.06%
	Income Taxes				
18	State	1,019,133	1,065,718	46,585	4.57%
19	Federal	4,287,663	3,799,811	(487,852)	-11.38%
20	Total Operating Expenses	\$ 51,627,594	\$ 52,633,359	1,005,765	1.95%
21	Net Operating Income	\$ 10,269,374	\$ 9,263,609	(1,005,765)	-9.79%
	<u>Rate Base</u>				
	<u>Gas Plant in Service</u>				
22	Southern California Division	\$ 358,865,381	\$ 369,438,377	\$ 10,572,997	2.95%
23	System Allocable	19,231,341	19,231,341	0	0.00%
24	Total Gross Plant	\$ 378,096,722	\$ 388,669,718	10,572,997	2.80%
	<u>Accumulated Provision for</u>				
	<u>Depreciation and Amortization</u>				
25	Southern California Division	\$ 183,920,226	\$ 187,595,944	\$ 3,675,717	2.00%
26	System Allocable	11,764,567	11,764,567	0	0.00%
27	Total Accum Prov for D&A	\$ 195,684,794	\$ 199,360,511	3,675,717	1.88%
28	Net Plant in Service	\$ 182,411,928	\$ 189,309,207	6,897,279	3.78%
	<u>Other Rate Base</u>				
29	Working Capital (add)	\$ 13,420,208	\$ 13,694,031	\$ 273,824	2.04%
30	Materials and Supplies (add)	855,000	1,043,391	188,391	22.03%
31	Customer Advances (deduct)	2,747,000	1,360,027	-1,386,973	-50.49%
32	Deferred Taxes (deduct)	34,533,495	31,829,515	-2,703,981	-7.83%
33	Total Other Rate Base	\$ (23,005,288)	\$ (18,452,120)	4,553,168	-19.79%
34	Rate Base	\$ 159,406,640	\$ 170,857,087	\$ 11,450,447	7.18%
35	Rate of Return	6.442%	5.422%	(102.04)	-15.84%
				Basis Points	

Table 2-B					
PROPOSED RATE REVENUES					
SOUTHERN CALIFORNIA					
FOR TEST YEAR 2014					
Line		DRA	SWG	SWG Exceeds DRA	
No.	Description	Recommendation	Application	Dollars	Percentage
		(a)	(b)	(c)	(d)
				(b)-(a)	[(b)-(a)]/(a)
1	Operating Revenue	\$ 101,996,385	\$ 107,963,614	\$ 5,967,229	5.85%
2	Gas Cost	40,511,505	40,511,505	0	0.00%
3	Operating Margin	\$ 61,484,880	\$ 67,452,109	5,967,229	9.71%
	<u>Operating Expenses</u>				
4	Other Gas Supply	\$ 165,677	\$ 165,677	\$ 0	0.00%
5	Distribution	13,218,369	13,928,381	710,012	5.37%
6	Customer Accounts	4,761,743	4,869,956	108,212	2.27%
7	Customer Service & Information	177,528	177,528	0	0.00%
	Administrative and General				
9	Southern California Division	1,704,694	1,822,717	118,022	6.92%
10	System Allocable	9,014,421	9,014,421	0	0.00%
	Depreciation and Amortization				
11	Southern California Division	10,922,922	11,353,233	430,311	3.94%
12	System Allocable	1,284,573	1,284,573	0	0.00%
13	Regulatory Amortization	79,019	79,019	0	0.00%
14	Property and Payroll Taxes	3,102,497	3,185,068	82,570	2.66%
	Escalation				
15	Labor	819,738	833,270	13,532	1.65%
16	Labor Loading	472,587	522,509	49,922	10.56%
17	Materials and Expenses	590,941	620,867	29,926	5.06%
	Income Taxes				
18	State	988,248	1,548,850	560,602	56.73%
19	Federal	4,156,306	5,543,570	1,387,263	33.38%
20	Total Operating Expenses	\$ 51,459,264	\$ 54,949,637	3,490,374	6.78%
21	Net Operating Income	\$ 10,025,531	\$ 12,502,461	2,476,930	24.71%
	<u>Rate Base</u>				
	<u>Gas Plant in Service</u>				
22	Southern California Division	\$ 358,865,381	\$ 369,438,377	\$ 10,572,997	2.95%
23	System Allocable	19,231,341	19,231,341	0	0.00%
24	Total Gross Plant	\$ 378,096,722	\$ 388,669,718	10,572,997	2.80%
	<u>Accumulated Provision for</u>				
	<u>Depreciation and Amortization</u>				
25	Southern California Division	\$ 183,920,226	\$ 187,595,944	\$ 3,675,717	2.00%
26	System Allocable	11,764,567	11,764,567	0	0.00%
27	Total Accum Prov for D&A	\$ 195,684,794	\$ 199,360,511	3,675,717	1.88%
28	Net Plant in Service	\$ 182,411,928	\$ 189,309,207	6,897,279	3.78%
	<u>Other Rate Base</u>				
29	Working Capital (add)	\$ 13,434,160	\$ 13,731,305	\$ 297,145	2.21%
30	Materials and Supplies (add)	855,000	1,043,391	188,391	22.03%
31	Customer Advances (deduct)	2,747,000	1,360,027	-1,386,973	-50.49%
32	Deferred Taxes (deduct)	34,533,495	31,829,515	-2,703,981	-7.83%
33	Total Other Rate Base	\$ (22,991,335)	\$ (18,414,846)	4,576,489	-19.91%
34	Rate Base	\$ 159,420,592	\$ 170,894,361	\$ 11,473,769	7.20%
35	Rate of Return	6.29%	7.32%	102.72	16.33%
				Basis Points	

1 **CHAPTER 2**
2 **NORTHERN CALIFORNIA DIVISION**
3 **SUMMARY OF EARNINGS**

4 **I. INTRODUCTION**

5 This chapter presents the Division of Ratepayer Advocates' (DRA) Summary
6 of Earnings at present and proposed rates for Southwest Gas Corporation's (SWG)
7 Northern California Division for Test Year (TY) 2014. Revenue requirements are
8 calculated by a computer model designed for SWG and is referred to as "the Results
9 of Operations" (RO) model. A separate RO model is prepared for each of SWG's
10 service territories, or Divisions, in the jurisdiction of California because each Division
11 is subject to different, sometimes unique, tariff schedules. Data inputs prepared by
12 DRA's assigned witnesses are entered into the spreadsheets comprising its RO
13 model to produce annual revenue requirements. These inputs and the resulting
14 proposed revenue requirement at the Operating Margin are then used to derive
15 DRA's rate design. For the purposes of this chapter and to inform decision makers,
16 these results, the Summary of Earnings, are compared with those from SWG's RO
17 model.

18 The comparison between DRA's and SWG's Summary of Earnings at Present
19 Rate Revenues is shown on Table 2-C. A comparison of DRA's and SWG's
20 Summary of Earnings at Proposed Revenues is shown on Table 2-D.

21 **II. SUMMARY OF RECOMMENDATIONS**

22 The following bullets summarize DRA's key adjustments to SWG's showing
23 for the Northern California Division in TY 2014:

- 24 • DRA recommends that the Commission adopt DRA's projections for cost
25 of capital, expenses, and rate base as shown in Tables 2-C and 2-D,
26 because they constitute the foundation for DRA's recommended Test Year
27 2014 revenue requirement.

- 1 • DRA recommends the Commission adopt its net-to-gross multiplier of
2 1.71201 for the Northern California Division rather than SWG's proposal of
3 1.71227.

4 **IV. DISCUSSION / ANALYSIS**

5 The differences between DRA and SWG reflected in the accompanying
6 Summary of Earnings tables are addressed in detail in the appropriate DRA exhibits.
7 For example, the difference in the net-to-gross multiplier factor between DRA and
8 SWG is reflected as part of the dollar and percentage differences in the row for
9 Customer Accounts at both present and proposed rate revenues. This is attributable
10 to two things. They are: 1) the opposing methodologies developed by DRA versus
11 SWG for deriving the Uncollectible Expenses component of the net-to-gross factor
12 and 2) to the dollar differences in Operating Margin Revenues, as generated by the
13 DRA's versus SWG's RO model, to which the respective factor is applied. This
14 difference, in particular aspect 1), is explained in detail in Exhibit DRA-4.

15
16

Table 2-C					
PRESENT RATE REVENUES					
NORTHERN CALIFORNIA					
FOR TEST YEAR 2014					
Line		DRA	SWG	SWG Exceeds DRA	
No.	Description	Recommendation	Application	Dollars	Percentage
		(a)	(b)	(c)	(d)
				(b)-(a)	[(b)-(a)]/(a)
1	Operating Revenue	\$ 29,822,755	\$ 29,822,755	0	0.00%
2	Gas Cost	14,668,006	14,668,006	0	0.00%
3	Operating Margin	\$ 15,154,749	\$ 15,154,749	0	0.00%
	<u>Operating Expenses</u>				
4	Other Gas Supply	\$ 29,923	\$ 29,923	0	0.00%
5	Distribution	1,704,461	1,896,940	192,479	11.29%
6	Customer Accounts	715,706	813,203	97,497	13.62%
7	Customer Service & Information	32,063	32,063	0	0.00%
	Administrative and General				
9	Northern California Division	358,464	359,675	1,212	0.34%
10	System Allocable	1,600,139	1,600,139	0	0.00%
	Depreciation and Amortization				
11	Northern California Division	3,371,365	3,322,013	(49,352)	-1.46%
12	System Allocable	237,277	237,277	0	0.00%
13	Regulatory Amortization	14,596	14,596	0	0.00%
14	Property and Payroll Taxes	951,856	1,080,885	129,029	13.56%
	Escalation				
15	Labor	111,171	115,218	4,047	3.64%
16	Labor Loading	63,196	70,532	7,336	11.61%
17	Materials and Expenses	108,880	121,949	13,069	12.00%
	Income Taxes				
18	State	271,967	332,678	60,711	22.32%
19	Federal	1,352,568	1,192,959	(159,609)	-11.80%
20	Total Operating Expenses	\$ 10,923,632	\$ 11,220,051	296,419	2.71%
21	Net Operating Income	\$ 4,231,117	\$ 3,934,698	(296,419)	-7.01%
	<u>Rate Base</u>				
	<u>Gas Plant in Service</u>				
22	Northern California Division	\$ 126,500,079	\$ 124,959,636	(1,540,444)	-1.22%
23	System Allocable	3,552,280	3,552,280	0	0.00%
24	Total Gross Plant	\$ 130,052,360	\$ 128,511,916	(1,540,444)	-1.18%
	<u>Accumulated Provision for</u>				
	<u>Depreciation and Amortization</u>				
25	Northern California Division	\$ 42,867,185	\$ 42,510,665	(356,521)	-0.83%
26	System Allocable	2,173,069	2,173,069	0	0.00%
27	Total Accum Prov for D&A	\$ 45,040,255	\$ 44,683,734	(356,521)	-0.79%
28	Net Plant in Service	\$ 85,012,105	\$ 83,828,182	(1,183,923)	-1.39%
	<u>Other Rate Base</u>				
29	Working Capital (add)	\$ 1,698,589	\$ 1,895,133	196,544	11.57%
30	Materials and Supplies (add)	271,000	296,497	25,497	9.41%
31	Customer Advances (deduct)	674,000	289,019	(384,981)	-57.12%
32	Deferred Taxes (deduct)	26,080,828	18,080,735	(8,000,093)	-30.67%
33	Total Other Rate Base	\$ (24,785,239)	\$ (16,178,125)	8,607,114	-34.73%
34	Rate Base	\$ 60,226,866	\$ 67,650,057	7,423,191	12.33%
35	Rate of Return	0	5.816%	(121)	-17.21%
				Basis Points	

Table 2-D					
PROPOSED RATE REVENUES					
NORTHERN CALIFORNIA					
FOR TEST YEAR 2014					
Line		DRA	SWG	SWG Exceeds DRA	
No.	Description	Recommendation	Application	Dollars	Percentage
		(a)	(b)	(c)	(d)
				(b)-(a)	[(b)-(a)]/(a)
1	Operating Revenue	\$ 30,534,129	\$ 33,059,135	\$ 2,525,006	8.27%
2	Gas Cost	14,668,006	14,668,006	0	0.00%
3	Operating Margin	\$ 15,866,123	\$ 18,391,129	2,525,006	15.91%
	<u>Operating Expenses</u>				
4	Other Gas Supply	\$ 29,923	\$ 29,923	\$ 0	0.00%
5	Distribution	1,704,461	1,896,940	192,479	11.29%
6	Customer Accounts	716,647	817,979	101,332	14.14%
7	Customer Service & Information	32,063	32,063	0	0.00%
	Administrative and General				
9	Northern California Division	367,656	401,496	33,840	9.20%
10	System Allocable	1,600,139	1,600,139	0	0.00%
	Depreciation and Amortization				
11	Northern California Division	3,371,365	3,322,013	(49,352)	-1.46%
12	System Allocable	237,277	237,277	0	0.00%
13	Regulatory Amortization	14,596	14,596	0	0.00%
14	Property and Payroll Taxes	951,856	1,080,885	129,029	13.56%
	Escalation				
15	Labor	111,171	115,218	4,047	3.64%
16	Labor Loading	63,196	70,532	7,336	11.61%
17	Materials and Expenses	108,880	121,949	13,069	12.00%
	Income Taxes				
18	State	317,966	614,655	296,688	93.31%
19	Federal	1,582,665	2,210,691	628,027	39.68%
20	Total Operating Expenses	\$ 11,209,862	\$ 12,566,357	1,356,495	12.10%
21	Net Operating Income	\$ 4,657,124	\$ 5,824,809	1,167,685	25.07%
	<u>Rate Base</u>				
	<u>Gas Plant in Service</u>				
22	Northern California Division	\$ 126,500,079	\$ 124,959,636	\$(1,540,444)	-1.22%
23	System Allocable	3,552,280	3,552,280	0	0.00%
24	Total Gross Plant	\$ 130,052,360	\$ 128,511,916	(1,540,444)	-1.18%
	<u>Accumulated Provision for</u>				
	<u>Depreciation and Amortization</u>				
25	Northern California Division	\$ 42,867,185	\$ 42,510,665	\$ (356,521)	-0.83%
26	System Allocable	2,173,069	2,173,069	0	0.00%
27	Total Accum Prov for D&A	\$ 45,040,255	\$ 44,683,734	(356,521)	-0.79%
28	Net Plant in Service	\$ 85,012,105	\$ 83,828,182	(1,183,923)	-1.39%
	<u>Other Rate Base</u>				
29	Working Capital (add)	\$ 1,621,389	\$ 1,895,177	\$ 273,788	16.89%
30	Materials and Supplies (add)	271,000	296,497	25,497	9.41%
31	Customer Advances (deduct)	674,000	289,019	(384,981)	-57.12%
32	Deferred Taxes (deduct)	26,080,828	18,080,735	(8,000,093)	-30.67%
33	Total Other Rate Base	\$ (24,862,439)	\$ (16,178,081)	8,684,358	-34.93%
34	Rate Base	\$ 60,149,666	\$ 67,650,101	\$ 7,500,435	12.47%
35	Rate of Return	7.74%	8.61%	86.76	11.21%
				Basis Points	

1 **CHAPTER 3**
2 **SOUTH LAKE TAHOE DISTRICT**
3 **SUMMARY OF EARNINGS**

4 **I. INTRODUCTION**

5 This chapter presents the Division of Ratepayer Advocates' (DRA) Summary
6 of Earnings at present and proposed rates for Southwest Gas Corporation's (SWG)
7 South Lake Tahoe District for Test Year (TY) 2014. Revenue requirements are
8 calculated by a computer model designed for SWG and is referred to as "the Results
9 of Operations" (RO) model. A separate RO model is prepared for each of SWG's
10 service territories, or Divisions, in the jurisdiction of California because each Division
11 is subject to different, sometimes unique, tariff schedules. Data inputs prepared by
12 DRA's assigned witnesses are entered into the spreadsheets comprising its RO
13 model to produce annual revenue requirements. These inputs and the resulting
14 proposed revenue requirement at the Operating Margin are then used to derive
15 DRA's rate design. For the purposes of this chapter and to inform decision makers,
16 these results, the Summary of Earnings, are compared with those from SWG's RO
17 model.

18 The comparison between DRA's and SWG's Summary of Earnings at Present
19 Rate Revenues is shown on Table 2-E. A comparison of DRA and SWG Summary
20 of Earnings at Proposed Revenues is shown on Table 2-F.

21 **II. SUMMARY OF RECOMMENDATIONS**

22 The following bullets summarize DRA's key adjustments to SWG's showing
23 for the Northern California Division in TY 2014:

- 24 • DRA recommends that the Commission adopt DRA's projections for cost
25 of capital, expenses, and rate base as shown in Tables 2-E and 2-F,
26 because they constitute the foundation for DRA's recommended Test Year
27 2014 revenue requirement.

- 1 • DRA recommends the Commission adopt its net-to-gross multiplier of
2 1.71201 for the Northern California Division rather than SWG's proposal of
3 1.71227.

4 **V. DISCUSSION / ANALYSIS**

5 The differences between DRA and SWG reflected in the accompanying
6 Summary of Earnings tables are addressed in detail in the appropriate DRA exhibits.
7 For example, the difference in the net-to-gross multiplier factor between DRA and
8 SWG is reflected as part of the dollar and percentage differences in the row for
9 Customer Accounts at both present and proposed rate revenues. This is attributable
10 to two things. They are: 1) the opposing methodologies developed by DRA versus
11 SWG for deriving the Uncollectible Expenses component of the net-to-gross factor
12 and 2) to the dollar differences in Operating Margin Revenues, as generated by the
13 DRA's versus SWG's RO model, to which the respective factor is applied. This
14 difference, in particular aspect 1), is explained in detail in Exhibit DRA-4.

Table 2-E					
PRESENT RATE REVENUES					
SOUTH LAKE TAHOE					
FOR TEST YEAR 2014					
Line No.	Description	DRA Recommendation	SWG Application	SWG Exceeds DRA	
		(a)	(b)	Dollars (c)	Percentage (d)
				(b)-(a)	[(b)-(a)]/(a)
1	Operating Revenue	\$ 19,899,114	\$ 19,899,114	0	0.00%
2	Gas Cost	13,789,466	13,789,466	0	0.00%
3	Operating Margin	\$ 6,109,648	\$ 6,109,648	0	0.00%
	<u>Operating Expenses</u>				
4	Other Gas Supply	\$ 23,103	\$ 23,102	(1)	0.00%
5	Distribution	1,762,561	2,303,465	540,904	30.69%
6	Customer Accounts	399,980	531,677	131,696	32.93%
7	Customer Service & Information	24,756	24,755	(1)	0.00%
	Administrative and General				
9	South Lake Tahoe Division	168,167	168,201	34	0.02%
10	System Allocable	828,607	828,607	0	0.00%
	Depreciation and Amortization	0		0	
11	South Lake Tahoe Division	1,098,590	1,098,763	173	0.02%
12	System Allocable	132,170	132,170	0	0.00%
13	Regulatory Amortization	8,130	8,130	0	0.00%
14	Property and Payroll Taxes	421,119	421,119	0	0.00%
	Escalation				
15	Labor	76,352	79,512	3,160	4.14%
16	Labor Loading	43,840	49,583	5,743	13.10%
17	Materials and Expenses	89,010	129,230	40,221	45.19%
	Income Taxes				
18	State	34,178	(25,067)	(59,245)	-173.34%
19	Federal	184,644	(90,473)	(275,117)	-149.00%
20	Total Operating Expenses	\$ 5,295,206	\$ 5,682,773	387,567	7.32%
21	Net Operating Income	\$ 814,442	\$ 426,875	(387,567)	-47.59%
	<u>Rate Base</u>				
	<u>Gas Plant in Service</u>				
22	South Lake Tahoe Division	\$ 39,504,441	\$ 39,510,567	6,126	0.02%
23	System Allocable	1,978,710	1,978,710	0	0.00%
24	Total Gross Plant	\$ 41,483,151	\$ 41,489,277	6,126	0.01%
	<u>Accumulated Provision for Depreciation and Amortization</u>				
25	South Lake Tahoe Division	\$ 13,999,218	\$ 13,999,305	86	0.00%
26	System Allocable	1,210,455	1,210,455	0	0.00%
27	Total Accum Prov for D&A	\$ 15,209,673	\$ 15,209,759	86	0.00%
28	Net Plant in Service	\$ 26,273,478	\$ 26,279,517	6,040	0.02%
	<u>Other Rate Base</u>				
29	Working Capital (add)	\$ 2,390,323	\$ 2,473,366	83,043	3.47%
30	Materials and Supplies (add)	208,000	229,774	21,774	10.47%
31	Customer Advances (deduct)	125	112	(13)	-10.00%
32	Deferred Taxes (deduct)	12,154,980	5,292,867	(6,862,112)	-56.46%
33	Total Other Rate Base	\$ (9,556,781)	\$ (2,589,840)	6,966,942	-72.90%
34	Rate Base	\$ 16,716,696	\$ 23,689,678	\$ 6,972,981	41.71%
35	Rate of Return	4.87%	1.80%	(307.01)	-63.01%
				Basis Points	

Table 2-F
PROPOSED RATE REVENUES
SOUTH LAKE TAHOE
FOR TEST YEAR 2014

Line No.	Description	DRA	SWG	SWG Exceeds DRA	
		Recommendation	Application	Dollars	Percentage
		(a)	(b)	(c)	(d)
				(b)-(a)	[(b)-(a)]/(a)
1	Operating Revenue	\$ 20,694,064	\$ 22,660,761	1,966,698	9.50%
2	Gas Cost	13,789,466	13,789,466	0	0.00%
3	Operating Margin	\$ 6,904,598	\$ 8,871,295	1,966,698	28.48%
		0			
	<u>Operating Expenses</u>	0			
4	Other Gas Supply	\$ 23,103	\$ 23,102	(1)	0.00%
5	Distribution	1,762,561	2,303,465	540,904	30.69%
6	Customer Accounts	401,032	535,752	134,720	33.59%
7	Customer Service & Information	24,756	24,755	(1)	0.00%
	Administrative and General				
9	South Lake Tahoe Division	178,439	203,887	25,448	14.26%
10	System Allocable	828,607	828,607	0	0.00%
	Depreciation and Amortization				
11	South Lake Tahoe Division	1,098,590	1,098,763	173	0.02%
12	System Allocable	132,170	132,170	0	0.00%
13	Regulatory Amortization	8,130	8,130	0	0.00%
14	Property and Payroll Taxes	421,119	421,119	0	0.00%
	Escalation				
15	Labor	76,352	79,512	3,160	4.14%
16	Labor Loading	43,840	49,583	5,743	13.10%
17	Materials and Expenses	89,010	129,230	40,221	45.19%
	Income Taxes				
18	State	81,891	215,548	133,657	163.21%
19	Federal	442,403	777,972	335,569	75.85%
20	Total Operating Expenses	\$ 5,612,002	\$ 6,831,594	1,219,593	21.73%
21	Net Operating Income	\$ 1,292,815	\$ 2,039,732	746,917	57.77%
	<u>Rate Base</u>				
	<u>Gas Plant in Service</u>				
22	South Lake Tahoe Division	\$ 39,504,441	\$ 39,510,567	6,126	0.02%
23	System Allocable	1,978,710	1,978,710	0	0.00%
24	Total Gross Plant	\$ 41,483,151	\$ 41,489,277	6,126	0.01%
	<u>Accumulated Provision for</u>				
	<u>Depreciation and Amortization</u>				
25	South Lake Tahoe Division	\$ 13,999,218	\$ 13,999,305	86	0.00%
26	System Allocable	1,210,455	1,210,455	0	0.00%
27	Total Accum Prov for D&A	\$ 15,209,673	\$ 15,209,759	86	0.00%
28	Net Plant in Service	\$ 26,273,478	\$ 26,279,517	6,040	0.02%
	<u>Other Rate Base</u>				
29	Working Capital (add)	\$ 2,371,142	\$ 2,473,404	102,262	4.31%
30	Materials and Supplies (add)	208,000	229,774	21,774	10.47%
31	Customer Advances (deduct)	125	112	(13)	-10.00%
32	Deferred Taxes (deduct)	12,154,980	5,292,867	(6,862,112)	-56.46%
33	Total Other Rate Base	\$ (9,575,963)	\$ (2,589,802)	6,986,161	-72.96%
34	Rate Base	\$ 16,697,515	\$ 23,689,716	6,992,201	41.88%
35	Rate of Return	7.74%	8.61%	87	11.21%
				Basis Points	

1 **CHAPTER 4**
2 **ALLOCATION FACTORS FOR SYSTEM ALLOCABLE COSTS**

3 **I. INTRODUCTION**

4 This chapter presents DRA's analyses and recommendations regarding the
5 allocation factors used to allocate SWG's common, or "System Allocable,"
6 Administrative and General (A&G) expenses, plant, depreciation expense and
7 reserve estimates for TY 2014 to the utility's three Divisions under California
8 jurisdiction.

9 **II. SUMMARY OF RECOMMENDATIONS**

10 DRA recommends that the Commission adopt SWG's proposed allocation
11 factors derived using the 4-Factor method and recorded 2011 data.¹

12 **III. DISCUSSION / ANALYSIS**

13 SWG has been using what is commonly referred to as the 4-Factor² for
14 allocating common plant, administrative and general expenses, and depreciation.
15 The four factors are: (1) direct operating expenses; (2) average direct gas plant-in-
16 service; (3) direct labor and (4) average number of customers. They are equally
17 weighted by Division to arrive at a single factor for each Division for each recorded
18 year. The same 2011 factor is used for the 2012 through 2014 allocation factor.
19 After review and updating, DRA does not take issue with either the use of the 4-
20 Factor method or the use of 2011 data for the TY allocation factors.

21 The uncontested allocation factors for TY 2014 are:

22	Northern California North Lake Tahoe Southern California		
23	Factor	1.48%	1.06% 7.97%

¹ SWG's Ch. 8C, "Allocation Factors," see Sheet 2.

² CPUC Standard Practice U-6-W for Water Utilities and D.08-11-048, O.P. 1 and "Joint Motion, Exhibit 1, Settlement Agreement, pp. 39-40.

1 **VI. QUALIFICATIONS OF WITNESS**

2 Q.1 Please state your name and address.

3 A.1 My name is Mark Robert Loy. My business address is 505 Van Ness
4 Avenue, San Francisco, California.

5 Q.2 By whom are you employed and in what capacity?

6 A.2 I am employed by the California Public Utilities Commission as a Public
7 Utilities Regulatory Analyst V in the Division of Ratepayer Advocates Energy Cost of
8 Service and Natural Gas Branch.

9 Q.3 Briefly describe your educational background and work experience.

10 A.3 I earned a Bachelor of Arts degree in Economics from the University of
11 California, Santa Cruz in 1980. While attending the University I was employed as a
12 teacher assistant and as a research assistant. After graduation, I worked as an
13 accountant for a partnership of Certified Public Accountants. In 1982, I joined the
14 California Public Utilities Commission. Initially, I was assigned to the economics
15 department. Most of my work there concentrated on telecommunication and energy
16 general rate case proceedings. Presently, I am assigned to the Division of
17 Ratepayer Advocates.

18 My primary responsibilities in the past have been to review, investigate,
19 analyze, and make recommendations in such areas as cost-benefit analysis,
20 financial analysis, capital additions and expense forecasting, labor inflation, non-
21 labor inflation, econometric forecasting, and pensions and benefits expenses. I have
22 prepared, sponsored, and presented direct testimony on cost-benefit analysis,
23 capital additions and expense forecasting, decommissioning expenses and
24 financing, labor inflation, non-labor inflation, sales and revenues, and pensions and
25 benefits expenses in various proceedings of all major California energy,
26 telecommunications, and water utilities.

27 Q.4 What is your area of responsibility in this proceeding?

28 A.4 I am responsible for Exhibit DRA-02, Summary of Earnings and Allocation
29 Factors.

30 Q.5 Does that complete your prepared testimony?

31 A.5 Yes, it does.